

**RISK FINANCE SUBCOMMITTEE
MEETING MINUTES
Thursday, February 6, 2003**

RISK FINANCE SUBCOMMITTEE MEMBERS PRESENT

Linda Dunn	Office of the Attorney General
Carol Fleskes	Department of Ecology
Chris Freed	Department of Licensing
Kathy Gastreich	Department of Corrections
Chuck Greenough	State Board for Community and Technical Colleges
Bill Henselman	Department of Transportation
Carole Mathews	Department of Labor & Industries
Paul Mueller	Western Washington University
Diane Perry	Washington State Patrol
Stewart Sawyer	Acordia Northwest
Stephen Simmons	Department of Social and Health Services
Jim Smego	Department of Natural Resources

ABSENT MEMBERS

Robin Campbell	Office of Financial Management
Bernie Friedman	Department of Social and Health Services
Angela Terry	Willis of Seattle

OFM STAFF PRESENT

John Nicholson
Betty Reed
Gary Robinson

CALL TO ORDER

Chair, Carole Mathews called the meeting to order at 1:30 p.m.

Members, guests and staff introductions.

Meeting minutes were approved from January 15, 2003 meeting with one change. Chuck Greenough represents the State Board for **Community** and Technical Colleges not the State Board for Technical and Community Colleges. Change was made to January 15, 2003 minutes.

MASTER PROPERTY RENEWAL

Review:

Discussions from the January 15, 2003, RFSC meeting were reviewed. There was an interest in the catastrophic coverage. There was substantial interest from the education community that would cover education buildings. Also an interest in a deductible that would be the same or higher premium.

Overview of the focus group meetings: "\$500,000 deductible would hold a serious hardship for agencies (#1 option) a deductible that high – concern as to how that high a risk would be financed.

Recommendation for consideration - Proceed to market current master property program with an increased deductible of \$250,000 with an increased option of \$500,000. If interest from agencies to have catastrophic coverage with \$2 million catastrophic coverage – a quote can be given so agencies would have options.

Loss Funding:

A typical response from facilities people was, “How much would it cost?”

There are 2 requests –

- 1) Standard underwriting policy – look at values and see if it is what you want;
- 2) Take building off and put it on catastrophic coverage

What is the process if an agency decides not to insure the building? Need to try to go to different resources to get the funds. It is a real scramble when buildings are uninsured.

DOT had \$3 million in losses in the last few years. Two fires were reallocated in capitol projects.

It was explained that OFM would first ask the agency, what do you have in your existing budget that could cover the loss? It would be competing with the new items. Looking to fund something unanticipated then would have to find somewhere else to get the money.

Coverage Questions:

There is a concern among the college campuses about academic buildings.

A question was asked about bridges at DOT.

No highway infrastructure is insured unless it has significant risk.

FEMA requirements were explained and discussed. There has to be a single emergency for FEMA to cover.

Can agencies purchase a deductible buy down?

John Nicholson answered that it would be evaluated on a case-by-case basis.

Questions were asked about purchasing insurance on buildings that are leased in the lease agreement. Auxiliary housing and dining systems – in terms of deductible what is in the market place for multi million dollar facilities?

Betty Reed explained that a recommendation is needed from the RFSC on how to proceed. The catastrophic market is just being explored so not sure what options are available. Increasing the deductible may help to offset premium increases.

Motion:

A motion was made for the recommendation to renew the current MPP at the best possible rate. Request quotes for deductibles of \$250,000 and \$500,000. Also if agencies show sufficient interest for catastrophic building coverage with a deductible of \$2 million and \$5 million, the broker will be asked to explore a tiered program including this coverage. The recommendation was moved and seconded. The recommendation was approved.

Bill Henselman suggested that the RFSC explore a catastrophic coverage only program with \$2 million deductible and a self-insurance program under \$2 million so smaller agencies could

participate and have some kind of coverage and options. This motion was approved with one opposed.

ALLOCATION FORMULA

The present allocation formula criteria was explained. The criteria includes: balanced equity, accountability, predictability, and stability. The discussion then continued with the following subject areas:

- How are varying values weighted in the formula?
- How much predictability and stability are needed to balance accountability?
- Use of today's dollars to fund today's liabilities
- Using incentive to improve loss control
- What part of the formula has predictability?
- Need to also look at the funding level
- The actuary looks at what the state is likely to pay
- Use of FTE's and how is that weighted?
- The more claims – the higher the premium – builds accountability
- Stability – cap and credibility standard built into the formula
- When risk is shared – it is difficult to get pure equity
- Over the long term is there a reasonable fairness by how many premium dollars go out and how many come in?
- Has the present formula been used long enough to see if it is equitable?
- The biggest problem with the pool is that it is not being funded
- The issue has nothing to do with the formula – rather it has to do with pooling
- There has been a huge draw down of funds for liabilities for which no funding was provided
- How deal with the claims that the agency has control over?
- Business and vehicle risks are all over the board
- Could there be some kind of pro-rated deductible? If an agency pays 5% of the claim, then maybe there would be some kind of accountability. Perhaps vehicles a set dollar amount and other claims a percentage
- Perhaps the top three agencies could get out of the pool and figure out how to deal with their own risk. That may have an affect on the other agencies
- The actuary could take a look at the big three agencies changing the cap to two million and leaving other agencies at what they are
- The time table is to make a recommendation to RMAC by September

Staff was asked to develop a matrix of criteria and formula allocation options for consideration at the next meeting.

CORRECTION REGARDING EXCEPTIONS TO FEMA'S INSURANCE REQUIREMENTS

State agencies that accepted FEMA funds for disasters other than the earthquake (i.e. flood, wind, ice, etc.) are required to continue to honor the insurance requirement. Earthquake is the only type of disaster that qualifies for consideration by the Insurance Commissioner to be exempt from the insurance requirements.

NEXT MEETING

The next meeting will be Wednesday, April 16, 2003.

ADJOURN

The meeting was adjourned at 3:30 p.m.